

NEUSTAR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

within the Enterprise Services segment in the Company's consolidated statement of operations since the date of acquisition. Of the total purchase price, the Company recorded \$5.1 million of goodwill and \$15.0 million of definite-lived intangible assets. Definite-lived intangible assets consist of customer relationships, acquired technology and trade name and trademarks. The Company is amortizing customer relationships on a straight-line basis over an estimated useful life of 7 years. Acquired technology and trade names and trademarks are being amortized on a straight-line basis over an estimated useful life of 3 years.

Evolving System Inc. Number Solutions Acquisition

On July 1, 2011, the Company acquired the assets and certain liabilities of the Numbering Solutions business of Evolving Systems, Inc. for cash consideration of \$39.0 million. The acquisition of Evolving Systems' Numbering Solutions business expanded the Company's Order Management Services portfolio and furthered the Company's long-term initiative to simplify operators' Operations Support Systems architectures by mitigating cost and complexity, while making the evolution to next-generation networks more efficient, manageable, and flexible to meet the increasingly complex needs of end-users.

The acquisition was accounted for under the acquisition method of accounting in accordance with the Business Combinations Topic of the FASB ASC and the results of operations have been included within the Carrier Services segment in the Company's consolidated statement of operations since the date of acquisition. Of the total purchase price, the Company recorded \$20.3 million of goodwill, \$21.7 million of definite-lived intangible assets, and \$3.0 million of net liabilities. The definite-lived intangible assets consist of \$18.9 million of customer relationships and \$2.8 million of acquired technology. The Company is amortizing customer relationships and acquired technology on a straight-line basis over an estimated useful life of 10 years and 5 years, respectively. The total amount of goodwill that is expected to be deductible for tax purposes is \$19.7 million. During 2011, the Company recorded \$0.6 million of acquisition costs in general and administrative expense related to this transaction.

TARGUSinfo Acquisition

On November 8, 2011, the Company completed its acquisition of TARGUSinfo, a leading, independent provider of real-time, on-demand information and analytics services including Caller ID.

The acquisition of TARGUSinfo significantly extends the Company's portfolio of services in the real-time information and analytics market and combines TARGUSinfo's leadership in Caller ID and online information services, such as lead verification and scoring, with the Company's strengths in network information services, including address inventory management and network security. These services are delivered through a secure, robust technology platform, and rely on unique, extensive and privacy-protected databases.

The acquisition was accounted for under the acquisition method of accounting in accordance with the Business Combinations Topic of the FASB ASC and revenue of \$21.2 million and operating expense of \$19.5 million has been included within the Information Services segment in the Company's consolidated statement of operations since the date of acquisition.

The total purchase price was approximately \$658.0 million, consisting of cash consideration of \$657.3 million and non-cash consideration of \$0.7 million attributable to the assumption of TARGUSinfo options. Of the total cash consideration, approximately \$43.5 million was deposited in an escrow account, of which \$40.0 million will be available to satisfy indemnification claims for breaches of the agreement and plan of merger. An additional \$3.0 million and \$0.5 million of the merger consideration payable to the stockholders of TARGUSinfo was deposited into separate escrow accounts and will be available to fund purchase price adjustments required

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under the merger agreement and to reimburse certain costs and expenses of the stockholder representative, respectively. The funds in the indemnity escrow account will remain in escrow for a one-year period from the date of acquisition (unless claims are pending at such time), after which remaining proceeds will be distributed to the TARGUSinfo stockholders. During the year ended December 31, 2011, the Company recorded \$10.5 million of acquisition costs in general and administrative expense related to this acquisition.

Under the acquisition method of accounting, the total estimated purchase price was allocated to TARGUSinfo's net tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of November 8, 2011. The allocation of the purchase price is preliminary pending the finalization of income and non-income based tax liabilities. The Company does not expect the finalization of these items to materially impact the purchase price allocation. The following table summarizes the preliminary purchase price allocation based on the estimated fair value of the acquired assets and assumed liabilities (in thousands):

Cash and cash equivalents	\$ 1,601
Accounts receivable	23,844
Income tax receivable	14,263
Other assets	14,406
Accounts payable and accrued expenses	(9,689)
Deferred tax liability	(119,012)
Deferred revenue	(3,604)
Other liabilities	(3,727)
Net tangible liabilities assumed	(81,918)
Customer relationships	256,700
Acquired identified technology	46,500
Trade names and trademarks	7,000
Goodwill	429,700
Total purchase price allocation	<u>\$ 657,982</u>

The Company utilized a third-party valuation in determining the fair value of the definite-lived intangible assets. The income approach, which includes the application of the relief from royalty valuation method or the discounted cash flow method, was the primary technique utilized in valuing the identifiable intangible assets. The relief from royalty valuation method estimates the benefit of ownership of the intangible asset as the "relief" from the royalty expense that would need to be incurred in absence of ownership. The discounted cash flow method estimates the present value of the intangible asset's future economic benefit, utilizing the estimated available cash flow that the intangible asset is expected to generate in the future. The Company's assumptions and estimates utilized in its valuations were based on historical experience, information obtained from management of TARGUSinfo, and were determined with assistance from a third-party appraisal firm.

The Company allocated \$310.2 million of the total purchase price to definite-lived intangible assets acquired, consisting of customer relationships, technology and trade names and trademarks. Customer relationships represent agreements with existing customers. The Company utilized the discounted cash flow method to value the acquired customer relationships. Under this method, the Company's significant assumptions and estimates included expected future cash flows and the weighted-average cost of capital. The value of customer relationships will be amortized on a straight-line basis over the estimated useful life of 8 years.

Acquired technology represents technology that had reached technological feasibility and for which development had been completed as of the date of the acquisition. Trade names and trademarks represent established TARGUSinfo trade names and trademarks acquired. The Company utilized the relief from royalty

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valuation method to value the acquired technology and trade names and trademarks. Under this method, the Company's significant assumptions and estimates included an estimated market royalty rate, estimated remaining useful life of the intangible asset, estimated future revenue of the intangible asset, and an estimated rate of return utilized in the determination of a discounted present value. The value of developed technology and trade names and trademarks will be amortized on a straight-line basis over their estimated useful life of 5 years and 3 years, respectively.

Goodwill represents the excess of the TARGUSinfo purchase price over the fair value of the net tangible liabilities assumed. The TARGUSinfo acquisition significantly expanded the Company's position in the information services market. This acquisition provides the Company with the opportunity to leverage its authoritative databases that are processing trillions of transactions in a new way and to provide new solutions to its customers based on real time analytics derived from the Company's existing addressing capabilities. These new capabilities, among other factors were the reasons for the establishment of the purchase price, resulting in the recognition of a significant amount of goodwill. The goodwill balance of \$429.7 million is not expected to be deductible for tax purposes.

In connection with this acquisition, the Company assumed unvested options with the estimated total fair value of \$5.7 million. Of the total \$5.7 million, approximately \$5.0 million will be expensed for post-combination services and approximately \$0.7 million has been included in the purchase price. The Company determined the estimated fair value of the assumed unvested options by utilizing the Hull-White lattice model and the following assumptions: an expected volatility range of 36.24% to 36.53%, a risk-free interest rate of 1.35% to 2.15%, a dividend yield of 0%, and Neustar's last reported sale price of shares on the New York Stock Exchange on November 8, 2011 of \$33.07 per share.

As a result of the acquisition of TARGUSinfo, the Company recorded a net deferred tax liability of approximately \$116.2 million in its preliminary purchase price allocation primarily related to the difference in book and tax basis of identifiable intangibles. The Company also recorded a \$14.3 million income tax receivable assumed from TARGUSinfo as a result of the acquisition and accrued \$1.2 million for potential sales tax and interest due on TARGUSinfo sales for prior years through 2010.

Pro Forma Financial Information for acquisitions of TARGUSinfo

The following unaudited pro forma financial information summarizes the Company's results of operations for the period indicated as if Neustar's acquisition of TARGUSinfo had been completed as of the beginning of the earliest period presented. These pro forma amounts (unaudited and in thousands) do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of the periods presented and should not be construed as representative of the future consolidated results of operations or financial condition of the combined entity. The pro forma financial information for all periods presented also includes the effect of the related financing, amortization expense from acquired intangible assets, adjustments to interest expense and related tax effects.

	Year Ended December 31,	
	2010	2011
Pro forma revenue	<u>\$650,250</u>	<u>\$743,324</u>
Pro forma income from continuing operations	<u>\$201,965</u>	<u>\$202,650</u>
Pro forma net income from continuing operations	<u>\$101,203</u>	<u>\$121,853</u>

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Discontinued Operations

During the second quarter of 2011, the Company ceased operations of its Converged Messaging Services business. The results of operations of the Converged Messaging Services business are reflected in the Company's consolidated statements of operations as "(Loss) income from discontinued operations, net of tax". All corresponding prior period operating results presented in the Company's consolidated statements of operations and the accompanying notes have been reclassified to reflect the operations of the Converged Messaging Services business as discontinued operations.

Summaries of the results of discontinued operations for the years ended December 31, 2009, 2010, and 2011 are as follows (in thousands):

	Year Ended December 31,		
	2009	2010	2011
Revenue from discontinued operations	\$ 13,132	\$ 5,946	\$ 454
Loss from discontinued operations before tax	\$(23,001)	\$(31,374)	\$ (8,174)
Benefit for income taxes	(8,632)	(13,555)	(45,423)
(Loss) income from discontinued operations, net of tax	<u>\$(14,369)</u>	<u>\$(17,819)</u>	<u>\$ 37,249</u>

The amounts presented as discontinued operations represent direct revenue and operating expense of the Converged Messaging Services business, which include the pre-tax loss on the sale of certain assets and liabilities of this business of \$1.9 million and an income tax benefit of \$42.7 million attributed to a deduction for the loss on worthless stock of a Converged Messaging Services business entity, recorded during the first quarter of 2011. The Company has determined direct costs consistent with the manner in which the Converged Messaging Services business was structured and managed during the respective periods. Indirect costs such as corporate overhead costs that are not directly attributable to the Converged Messaging business have not been allocated to the discontinued operations.

As of December 31, 2010 and 2011, the assets and liabilities of the Converged Messaging Services business are included in their respective balance sheet categories in the Company's consolidated balance sheets. As of December 31, 2010, these assets and liabilities were \$5.8 million and \$6.7 million, respectively. As of December 31, 2011, these assets and liabilities were \$1.3 million and \$2.2 million, respectively. As of December 31, 2011, these assets primarily included cash to fund the residual liabilities of the Converged Messaging Services business. All significant revenue generating and cost producing activities of the discontinued operations have ceased as of June 30, 2011.

4. INVESTMENTS

Auction Rate Securities and Rights

In November 2008, the Company accepted a settlement offer in the form of a rights offering (ARS Rights) by the investment firm that brokered the Company's original purchases of auction rate securities (ARS). The ARS Rights provided the Company with rights to sell its ARS at par value to the investment firm during a two year period beginning June 30, 2010. Under the ARS Rights, the investments were completely liquidated on July 1, 2010.

The Company elected to measure the ARS Rights at their fair value pursuant to the Financial Instruments Topic of the FASB ASC and to classify the associated ARS as trading securities. During the years ended December 31, 2009 and 2010, the Company recorded losses of \$2.5 million and \$6.9 million, respectively, related to the change in estimated fair value of the ARS Rights.

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Under the terms of the ARS Rights, if the investment firm was successful in selling any ARS prior to June 30, 2010, the investment firm was obligated to pay the Company par value for the ARS sold. During the year ended December 31, 2009, the investment firm sold ARS with an original par value of \$4.0 million; the Company received these amounts in cash from the investment firm and recognized realized gains of \$1.2 million. During 2010, prior to the Company's exercise of the ARS Rights on June 30, 2010, the investment firm sold ARS with an original par value of \$16.5 million, and the Company received this amount in cash from the investment firm and recognized realized gains of \$2.1 million.

During the years ended December 31, 2009 and 2010, the Company recorded gains of \$2.4 million and \$4.9 million, respectively, related to the change in estimated fair value of the ARS.

Pre-refunded Municipal Bonds

As of December 31, 2010 and 2011, the Company held approximately \$50.8 million and \$13.1 million, respectively, in pre-refunded municipal bonds, secured by an escrow fund of U.S. Treasury securities. These investments are accounted for as available-for-sale securities pursuant to the Investments — Debt and Equity Securities Topic of the FASB ASC. The Company did not sell any of these investments during 2010. During the year ended December 31, 2011, the Company sold approximately \$116.1 million of available-for-sale securities and recognized net gains of \$0.2 million. The Company did not record any impairment charges related to these investments during the years ended December 31, 2010 and 2011. The following table summarizes the Company's investment in these municipal bonds as of December 31, 2010 and 2011 (in thousands):

	December 31, 2010		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Due within one year	\$13,782	\$23	\$ (3)
Due after one year through three years	36,968	61	(20)
Total	<u>\$50,750</u>	<u>\$84</u>	<u>\$(23)</u>

	December 31, 2011		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Due within one year	\$10,538	\$10	\$ (3)
Due after one year through two years	2,500	6	—
Total	<u>\$13,038</u>	<u>\$16</u>	<u>\$ (3)</u>

5. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fair Value Measurements and Disclosure Topic of FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1. Observable inputs, such as quoted prices in active markets;
- Level 2. Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

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The Company evaluates assets and liabilities subject to fair value measurements on a recurring and non-recurring basis to determine the appropriate level at which to classify them for each reporting period. This determination requires the Company to make significant judgments.

The Company determines the fair value of its investments using third-party pricing sources, which primarily use a consensus price or weighted average price for the fair value assessment. The consensus price is determined by using matrix prices from a variety of industry standard pricing services, data providers, large financial institutions and other third party sources and utilizing those multiple prices as inputs into a distribution-curve-based algorithm to determine the estimated market value. Matrix prices are based on quoted prices for securities with similar terms (i.e. coupon rate, maturity, credit rating). The Company corroborates consensus prices provided by third party pricing sources using reported trade activity, benchmark yield curves, binding broker/dealer quotes or other relevant price information.

The fair value of the pre-refunded municipal bonds was incorrectly disclosed as a Level 1 fair value measurement in the previously issued 2010 financial statements. The 2010 disclosure below has been corrected to classify these investments, of approximately \$50.8 million, as Level 2 fair value measurements as fair value is based on observable inputs other than quoted prices in active markets. The Company does not believe that this disclosure error was material to the previously issued 2010 consolidated financial statements. The following table sets forth, as of December 31, 2010 and 2011, the Company's financial and non-financial assets and liabilities that are measured at fair value on a recurring basis, by level within the fair value hierarchy (in thousands):

December 31, 2010				
	Level 1	Level 2	Level 3	Total
Municipal bonds (maturities less than one year)	\$ —	\$13,802	\$—	\$13,802
Municipal bonds (maturities one to three years)	\$ —	\$37,009	\$—	\$37,009
Marketable securities (1)	\$3,681	\$ —	\$—	\$ 3,681

December 31, 2011				
	Level 1	Level 2	Level 3	Total
Municipal bonds (maturities less than one year)	\$ —	\$10,545	\$—	\$10,545
Municipal bonds (maturities one to two years)	\$ —	\$ 2,506	\$—	\$ 2,506
Marketable securities (1)	\$4,008	\$ —	\$—	\$ 4,008

- (1) The NeuStar, Inc. Deferred Compensation Plan (the Plan) provides directors and certain employees with the ability to defer a portion of their compensation. The assets of the Plan are invested in marketable securities held in a Rabbi Trust and reported at market value in other assets. During the years ended December 31, 2009 and 2010, there were no sales of securities from the Rabbi Trust. During the year ended December 31, 2011, the Company recognized gains of \$0.5 million attributed to the sale of securities from the Rabbi Trust.

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6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company's goodwill by operating segment as of December 31, 2010 and 2011 is as follows (in thousands):

	<u>December 31, 2009</u>	<u>Acquisitions</u>	<u>December 31, 2010</u>	<u>Acquisitions</u>	<u>Adjustments</u>	<u>December 31, 2011</u>
Carrier Services						
Gross goodwill	\$202,055	\$ —	\$202,055	\$ 20,602	\$(302)	\$222,355
Accumulated impairments	(93,602)	—	(93,602)	—	—	(93,602)
Net goodwill	<u>108,453</u>	<u>—</u>	<u>108,453</u>	<u>20,602</u>	<u>(302)</u>	<u>128,753</u>
Enterprise Services						
Gross goodwill	9,964	6,234	16,198	—	—	16,198
Accumulated impairments	—	—	—	—	—	—
Net goodwill	<u>9,964</u>	<u>6,234</u>	<u>16,198</u>	<u>—</u>	<u>—</u>	<u>16,198</u>
Information Services						
Gross goodwill	—	—	—	429,700	—	429,700
Accumulated impairments	—	—	—	—	—	—
Net goodwill	<u>—</u>	<u>—</u>	<u>—</u>	<u>429,700</u>	<u>—</u>	<u>429,700</u>
Total						
Gross goodwill	212,019	6,234	218,253	450,302	(302)	668,253
Accumulated impairments	(93,602)	—	(93,602)	—	—	(93,602)
Net goodwill	<u>\$118,417</u>	<u>\$6,234</u>	<u>\$124,651</u>	<u>\$450,302</u>	<u>\$(302)</u>	<u>\$574,651</u>

During the third quarter of 2011, the Company completed its acquisition of assets and certain liabilities of the Numbering Solutions business of Evolving Systems, Inc. and recorded \$20.3 million of goodwill, net of adjustments, (see Note 3). In addition, during the fourth quarter of 2011, the Company acquired TARGUSinfo and recorded \$429.7 million of goodwill in the Company's Information Services operating segment (see Note 3).

The Company's 2010 and 2011 annual goodwill impairment analysis, which was performed for each of its reporting units as of October 1 in each respective year, did not result in an impairment charge.

The key assumptions used in the Company's 2011 annual goodwill impairment test to determine the fair value of its reporting units included: (a) cash flow projections, which include growth and allocation assumptions for forecasted revenue and expenses; (b) a residual growth rate of 3.0% to 5.0%; (c) a discount rate of 14.5% to 16.0%, which was based upon each respective reporting unit's weighted-average cost of capital adjusted for the risks associated with the operations at the time of the assessment; (d) selection of comparable companies used in the market approach; and (e) assumptions in weighting the results of the income approach and the market approach valuation techniques.

As of the date of the Company's 2011 annual impairment test, the estimated fair values for each of the Company's reporting units substantially exceeded each of its reporting units' carrying value. The Company believes that the assumptions and estimates used to determine the estimated fair values of each of its reporting units are reasonable; however, these estimates are inherently subjective, and there are a number of factors, including factors outside of the Company's control that could cause actual results to differ from the Company's estimates. Changes in estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge.

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Any changes to the Company's key assumptions about its businesses and its prospects, or changes in market conditions, could cause the fair value of one of its reporting units to fall below its carrying value, resulting in a potential impairment charge. In addition, changes in the Company's organizational structure or how the Company's management allocates resources and assesses performance could result in a change of its operating segments or reporting units, requiring a reallocation and impairment analysis of goodwill. A goodwill impairment charge could have a material effect on the Company's consolidated financial statements because of the significance of goodwill to its consolidated balance sheet. As of December 31, 2011, the Company had \$128.8 million, \$16.2 million, and \$429.7 million, respectively, in goodwill for its Carrier Services, Enterprise Services, and Information Services operating segments.

Intangible Assets

In the first quarter of 2010, the Company realigned its organizational structure, and its NGM business was included with other IP-related services in the Company's Carrier Services operating segment. In the fourth quarter of 2010, the Company decided to exit a portion of its IP Services business, specifically its Converged Messaging Services business. The Company believes that its decision to exit this business was an indicator of impairment for long-lived assets in its Converged Messaging Services asset group. As a result, in the fourth quarter of 2010, the Company performed a recoverability test and determined that the future undiscounted cash flows of the Converged Messaging Services asset group was less than the carrying value. The Company recorded an \$8.5 million charge for impairment of long-lived assets, consisting of a \$7.9 million charge to write down the carrying value of the Converged Messaging Services property and equipment (see Note 7) and a \$0.6 million charge to write down the carrying value of the Converged Messaging Services intangible assets related to customer lists and relationships. The valuation technique utilized by the Company in its fair value estimates included the discounted cash flow method. During the second quarter of 2011, the Company ceased operations of its Converged Messaging Services business and all corresponding prior period results presented in the Company's consolidated statements of operations have been reclassified to discontinued operations (see Note 3).

Intangible assets consist of the following (in thousands):

	December 31,		Weighted-Average Amortization Period (in years)
	2010	2011	
Intangible assets:			
Customer lists and relationships	\$ 49,881	\$315,098	7.9
Accumulated amortization	(34,062)	(32,615)	
Customer lists and relationships, net	15,819	282,483	
Acquired technology	19,554	58,859	4.8
Accumulated amortization	(16,805)	(9,493)	
Acquired technology, net	2,749	49,366	
Trade name	630	7,630	3.0
Accumulated amortization	(224)	(711)	
Trade name, net	406	6,919	
Intangible assets, net	\$ 18,974	\$338,768	

In July 2010, the Company recorded \$1.0 million of definite-lived intangible assets in connection with its acquisition of BrowserMob, consisting of \$0.8 million related to acquired technology and \$0.2 million related to customer relationships (see Note 3).

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In October 2010, the Company recorded \$15.0 million of definite-lived intangible assets in connection with its acquisition of Quova, consisting of \$13.6 million related to customer relationships, \$1.0 million related to acquired technology and \$0.4 million related to trade names (see Note 3).

In July 2011, the Company recorded \$21.7 million of definite-lived intangible assets, consisting of \$18.9 million of customer relationships and \$2.8 million of acquired technology related to its acquisition of assets and certain liabilities of the Numbering Solutions business of Evolving Systems, Inc. (see Note 3).

In November 2011, the Company recorded \$310.2 million of definite-lived intangible assets in connection with its acquisition of TARGUSinfo, consisting of \$256.7 million related to customer relationships, \$46.5 million related to acquired technology and \$7.0 million related to trade names and trademarks (see Note 3).

Amortization expense related to intangible assets for the years ended December 31, 2009, 2010 and 2011 of approximately \$5.9 million, \$4.8 million and \$12.1 million, respectively, is included in depreciation and amortization expense. Amortization expense related to intangible assets for the years ended December 31, 2012, 2013, 2014, 2015, 2016 and thereafter is expected to be approximately \$50.3 million, \$48.9 million, \$47.9 million, \$45.9 million, \$44.1 million and \$101.7 million, respectively. Intangible assets as of December 31, 2011 will be fully amortized during the year ended December 31, 2021.

7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	December 31,	
	2010	2011
Computer hardware	\$ 86,990	\$ 91,918
Equipment	1,800	2,688
Furniture and fixtures	4,485	6,764
Leasehold improvements	22,233	23,357
Construction in-progress	17,731	18,292
Capitalized software	81,076	101,973
	214,315	244,992
Accumulated depreciation and amortization	(140,019)	(144,890)
Property and equipment, net	<u>\$ 74,296</u>	<u>\$ 100,102</u>

The Company entered into capital lease obligations of \$1.6 million and \$1.8 million for the years ended December 31, 2010 and 2011, respectively, primarily for computer hardware.

Depreciation and amortization expense related to property and equipment for the years ended December 31, 2009, 2010 and 2011 was \$24.0 million, \$28.1 million and \$34.1 million, respectively.

In the fourth quarter of 2010, the Company recorded a \$7.9 million impairment charge to write down the carrying value of property and equipment of the Converged Messaging Services asset group (see Note 6). The Converged Messaging property and equipment impairment charge of \$7.9 million includes a \$5.3 million impairment charge related to internally developed technology and a \$1.3 million impairment charge related to capitalized software. The valuation techniques utilized by the Company in its fair value estimates included the replacement cost method.

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8. ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

	December 31,	
	2010	2011
Accrued compensation	\$35,675	\$52,028
RRC reserve	2,581	2,441
Accrued interest	546	4,648
Other	19,006	20,217
Total	<u>\$57,808</u>	<u>\$79,334</u>

9. CREDIT FACILITIES

On November 8, 2011, the Company entered into a credit facility that provides for: (1) a \$600 million senior secured term loan facility (Term Facility); (2) a \$100 million senior secured revolving credit facility (Revolving Facility and together with the Term Facility, the 2011 Facilities), of which (a) \$30 million is available for the issuance of letters of credit and (b) \$25 million is available as a swingline subfacility; and (3) incremental term loan facilities in an aggregate amount of up to \$400 million. The Revolving Facility matures on November 8, 2016, and the Term Facility matures on November 8, 2018. The entire \$600 million Term Facility was borrowed on November 8, 2011, and used to fund a portion of the acquisition of TARGUSinfo and to pay costs, fees and expenses incurred in connection with the acquisition. The Company has not borrowed under the Revolving Facility.

The 2011 Facilities contain customary representations and warranties, affirmative and negative covenants, and events of default. If an event of default occurs and so long as such event of default is continuing, the amounts outstanding may accrue interest at an increased rate and payments of such outstanding amounts could be accelerated, or other remedies undertaken pursuant to the 2011 Facilities. The Company's quarterly financial covenants include a maximum consolidated fixed charge coverage ratio and a minimum consolidated leverage ratio. As of December 31, 2011 and for the period from the effective date of the 2011 Facilities to December 31, 2011, the Company was in compliance with these covenants.

The Company's obligations pursuant to the 2011 Facilities are guaranteed by certain of the Company's domestic subsidiaries, or the guarantors, and secured, with certain exceptions, by: (i) (a) a first priority security interest in all equity interests of the Company's direct and indirect domestic subsidiaries; (b) 65% of the outstanding voting equity interests and 100% of the non-voting equity interests of NeuStar NGM Services Limited, an indirect subsidiary of the Company, and first-tier foreign subsidiaries that are controlled foreign corporations; and (c) 65% of the outstanding voting equity interests of any domestic subsidiary of the Company, the sole assets of which consist of stock of controlled foreign corporations; (ii) all present and future tangible and intangible assets of the Company and the guarantors; and (iii) all proceeds and products of the property and assets described in (i) and (ii) above.

Principal payments under the Term Facility of \$1.5 million are due on the last day of the quarter starting on December 31, 2011 and ending on September 30, 2018. The remaining Term Facility principal balance of \$558.0 million is due in full on November 8, 2018, subject to early mandatory prepayments as further discussed below. The loans outstanding under the credit facility bear interest, at the Company's option, either: (i) at the base rate, which is defined as the highest of (a) the federal funds rate plus 0.50%, (b) the interest rate published by the Wall Street Journal as the "U.S. Prime Rate" and (c) the adjusted LIBOR rate for a one-month interest period beginning on such day plus 1.00%; provided that the base rate for loans under the Term Facility is deemed to be

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not less than 2.25% per annum or (ii) at the LIBOR rate plus, in each case, an applicable margin. The applicable margin is (i) in respect of the Term Facility, 2.75% per annum for borrowings based on the base rate and 3.75% per annum for borrowings based on the LIBOR rate, and (ii) in respect of the Revolving Facility, 2.50% per annum for borrowings based on the base rate and 3.50% per annum borrowings based on the LIBOR rate. The accrued interest under the Term Facility is payable quarterly beginning on February 8, 2012. As of December 31, 2011, the interest rate on the Term Facility was 5% per year. The accrued interest under the Revolving Facility is due on the last day of the quarter starting on December 31, 2011.

The Company paid \$10.0 million of loan origination fees related to its 2011 Facilities and recorded \$19.4 million in deferred financing costs. Total amortization expense of the loan origination fees and deferred financing costs was approximately \$0.6 million for the year ended December 31, 2011 and is reported as interest expense in the consolidated statements of operations. As of December 31, 2011, the balance of unamortized loan origination fees and deferred financing costs was \$28.8 million.

As of December 31, 2011, the remaining principal payments under the Term Facility are as follows (in thousands):

2012	\$ 6,000
2013	6,000
2014	6,000
2015	6,000
2016	6,000
Thereafter	<u>568,500</u>
Total principal payments	598,500
Less: unamortized original issue discount	<u>(8,835)</u>
Present value of principal payments	589,665
Less: current portion	<u>(4,856)</u>
Long-term note payable	<u><u>\$584,809</u></u>

The Company may voluntarily prepay the loans at any time. The 2011 Facilities provide for mandatory prepayments with the net cash proceeds of certain debt issuances, equity issuances, insurance receipts, dispositions and excess cash flows. Mandatory prepayments attributable to excess cash flows will be based on the Company's leverage ratio and will be determined at the end of each fiscal year, beginning with the year ended December 31, 2012. A leverage ratio of 1.5x or higher will trigger mandatory prepayments of 25% or 50% of excess cash flow. In the event actual results or changes in estimates trigger the mandatory prepayment, such prepayment amount will be reclassified from long-term note payable to current note payable in the Company's accompanying consolidated balance sheets.

As of December 31, 2011, the Company's outstanding borrowings under the Term Facility were \$589.7 million and accrued interest under the 2011 Facilities was \$4.5 million. As of December 31, 2011, the Company's available borrowings under the Revolving Facility were \$100 million.

2007 Credit Facility

On February 6, 2007, the Company entered into a credit agreement which provided for a revolving credit facility in an aggregate principal amount of up to \$100 million (the 2007 Credit Facility). Borrowings under the 2007 Credit Facility bore interest, at the Company's option, at either a Eurodollar rate plus a spread ranging from

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0.625% to 1.25%, or at a base rate plus a spread ranging from 0.0% to 0.25%, with the amount of the spread in each case depending on the ratio of the Company's consolidated senior funded indebtedness to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA). On November 8, 2011, immediately prior to entering into the 2011 Facilities, the Company terminated the 2007 Credit Facility. There were no amounts outstanding under the 2007 Credit Facility at the time of termination or as of December 31, 2010.

10. COMMITMENTS AND CONTINGENCIES

Capital Leases

The following is a schedule of future minimum lease payments due under capital lease obligations as of December 31, 2011 (in thousands):

2012	\$ 3,313
2013	1,624
2014	395
Total minimum lease payments	5,332
Less: amounts representing interest	(349)
Present value of minimum lease payments	4,983
Less: current portion	(3,065)
Capital lease obligation, long-term	<u>\$ 1,918</u>

The following assets were capitalized under capital leases at the end of each period presented (in thousands):

	<u>December 31,</u>	
	<u>2010</u>	<u>2011</u>
Equipment and hardware	\$ 38,137	\$ 34,630
Furniture and fixtures	334	334
Subtotal	38,471	34,964
Less: accumulated amortization	(30,370)	(31,308)
Net assets under capital leases	<u>\$ 8,101</u>	<u>\$ 3,656</u>

Operating Leases

The Company leases office space under noncancelable operating lease agreements. The leases terminate at various dates through 2021 and generally provide for scheduled rent increases.

On January 20, 2010, the Company entered into a lease agreement with a third party relating to its corporate headquarters in Sterling, Virginia. The lease provides for approximately 91,754 square feet of office space. The initial term of the lease commenced on October 1, 2010 and terminates January 31, 2021. The Company has two five-year options to renew the lease, and the rent for the applicable renewal term will be determined if and when the Company exercises its applicable option to renew the lease. The Company recognizes rent incentives and leasehold improvements funded by landlord incentives on a straight-line basis, as a reduction of rent expense, over the initial term of the lease.

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Future minimum lease payments under noncancelable operating leases as of December 31, 2011, are as follows (in thousands):

2012	\$11,954
2013	11,216
2014	10,326
2015	9,756
2016	8,463
Thereafter	34,335
	<u>\$86,050</u>

Rent expense was \$5.1 million, \$6.5 million and \$9.6 million for the years ended December 31, 2009, 2010 and 2011, respectively.

Contingencies

Currently, and from time to time, the Company is involved in litigation incidental to the conduct of its business. The Company is not a party to any lawsuit or proceeding that, in the opinion of management, is reasonably likely to have a material adverse effect on its financial position, results of operations or cash flows.

11. RESTRUCTURING CHARGES

The Company recorded restructuring charges in continuing operations of \$1.0 million, \$5.4 million and \$3.5 million during the years ended December 31, 2009, 2010 and 2011, respectively. The Company's restructuring charges included in continuing operations during the years ended December 31, 2009 and 2010 included charges incurred in connection with its 2009 restructuring plan to relocate certain operations and support functions to Louisville, Kentucky. Restructuring charges in continuing operations during the year ended December 31, 2010 also consisted of charges incurred under the Company's 2010 management transition restructuring plan. During the year ended December 31, 2011, restructuring charges in continuing operations included charges incurred in connection with the Company's 2010 management transition restructuring plan as well as the restructuring plan initiated in 2011 to reduce the Company's domestic workforce.

The Company recorded restructuring charges in discontinued operations of \$5.0 million, \$2.0 million and \$1.6 million during the years ended December 31, 2009, 2010 and 2011, respectively. The Company's restructuring charges for discontinued operations consisted of charges incurred under its Converged Messaging Services restructuring plan initiated in the fourth quarter of 2008 and completed in the second quarter of 2011.

Restructuring Plans

2011 Restructuring Plan

In the fourth quarter of 2011, the Company initiated a domestic work-force reduction impacting each of its operating segments and recorded severance and severance-related charges of \$3.1 million. The Company anticipates it will incur additional expenses of approximately \$0.5 million in the first quarter of 2012 under this plan and expects to pay approximately \$2.8 million in remaining severance and severance-related payments through the second quarter of 2012.

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2010 Management Transition

In the fourth quarter of 2010, the Company initiated a work-force reduction impacting its Carrier Services and Enterprise Services operating segments and recorded severance and severance-related charges of \$3.8 million. During 2011, the Company recorded additional severance and severance-related charges of \$0.4 million in connection with this restructuring initiative. The Company does not anticipate it will incur additional expenses under this plan and expects to pay approximately \$0.9 million in remaining severance and severance-related payments through the third quarter of 2012.

2009 Plan

In October 2009, the Company adopted a plan to relocate certain operations and support functions to Louisville, Kentucky. As of December 31, 2010, total restructuring charges recorded under this plan since inception were \$2.6 million, of which \$1.6 million was recorded in the year ended December 31, 2010. As of December 31, 2010, the restructuring plan was complete and the accrued liability relating to this plan was zero.

2001 Plan

As of December 31, 2010, the liability related to a reduction in leased facilities incurred in connection with a 2001 restructuring plan was \$0.8 million. As of December 31, 2011, this plan was complete and the Company does not anticipate it will incur additional expenses under this plan.

Converged Messaging Services, Discontinued Operations

Beginning in the fourth quarter of 2008, management committed to and implemented a restructuring plan for the Company's Converged Messaging Services business, previously known as the Company's Next Generation Messaging business, to more appropriately allocate resources to the Company's key mobile instant messaging initiatives. The restructuring plan involved a reduction in headcount and closure of specific leased facilities in some of the Company's international locations. In the third quarter of 2009 and the fourth quarter of 2010, the Company extended the restructuring plan to include further headcount reductions and closure of certain additional facilities. During 2011, the Company sold certain assets and liabilities of Neustar NGM Services, Inc. and its subsidiaries used in the Converged Messaging Services business, and completed the wind-down of the residual operations of its Converged Messaging Services business. Restructuring charges for all periods presented have been reclassified into "(Loss) income on discontinued operations, net of tax" in the Company's consolidated statements of operations.

Total net restructuring charges recorded under this plan since the fourth quarter of 2008 include approximately \$8.4 million of severance and severance-related costs and \$1.8 million of lease and facility exit costs. Amounts related to lease terminations due to the closure of excess facilities will be paid over the remainder of the respective lease terms, the longest of which extends through 2013.

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Summary of Accrued Restructuring Plans

The additions and adjustments to the accrued restructuring liability related to the Company's restructuring plans as described above for the year ended December 31, 2011 are as follows (in thousands):

	December 31, 2010	Additional Costs	Cash Payments	Adjustments	December 31, 2011
Converged Messaging Services:					
Severance and related costs	\$ 656	\$ 733	\$(1,253)	\$(136)	\$ —
Lease and facilities exit costs	172	313	(593)	717	609
Total Converged Messaging Services	828	1,046	(1,846)	581	609
2011 Restructuring Plan:					
Severance and related costs	—	3,121	(288)	—	2,833
2010 Management Transition:					
Severance and related costs	3,354	488	(2,863)	(60)	919
2001 Plan:					
Lease and facilities exit costs	836	—	(836)	—	—
Total restructuring plans	<u>\$5,018</u>	<u>\$4,655</u>	<u>\$(5,833)</u>	<u>\$ 521</u>	<u>\$4,361</u>

12. OTHER (EXPENSE) INCOME

Other (expense) income consists of the following (in thousands):

	Year Ended December 31,		
	2009	2010	2011
Interest and other expense:			
Interest expense	\$2,310	\$ 388	\$4,831
(Gain) loss on asset disposals	(695)	(112)	996
Loss on ARS Rights	3,410	6,892	—
Foreign currency transaction (gain) loss	(222)	(173)	452
ARS impairments and trading losses	410	—	—
Total	<u>\$5,213</u>	<u>\$6,995</u>	<u>\$6,279</u>
Interest and other income:			
Interest income	\$ 937	\$ 575	\$1,265
Realized gains on cash reserve fund	450	—	—
ARS trading gains	4,038	7,007	—
Available-for-sale realized gains	—	—	701
Gain on ARS Rights	886	—	—
Gain on indemnification claims	1,180	—	—
Total	<u>\$7,491</u>	<u>\$7,582</u>	<u>\$1,966</u>

During 2009, the Company received a \$1.2 million payment for indemnification claims related to the acquisition of Followap, Inc. in 2006. During 2010 and 2011, the Company recorded a reduction of \$1.2 million and \$0.7 million, respectively, in interest expense related to a decrease in an accrued sales tax liability.

In 2011, the Company paid \$10.0 million of loan origination fees related to its 2011 Facilities and recorded \$19.4 million in deferred financing costs. Total amortization expense of the loan origination fees and deferred

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financing costs was approximately \$0.6 million for the year ended December 31, 2011 and is reported as interest expense in the consolidated statements of operations. As of December 31, 2011, the balance of unamortized loan origination fees and deferred financing costs was \$28.8 million.

13. INCOME TAXES

The provision for income taxes, continuing operations, consists of the following components (in thousands):

	Year Ended December 31,		
	2009	2010	2011
Current:			
Federal	\$60,910	\$70,210	\$54,615
State	13,560	14,708	12,076
Total current	<u>74,470</u>	<u>84,918</u>	<u>66,691</u>
Deferred:			
Federal	2,530	(1,133)	12,113
State	(502)	(1,503)	2,333
Total deferred	<u>2,028</u>	<u>(2,636)</u>	<u>14,446</u>
Total provision for income taxes, continuing operations	<u>\$76,498</u>	<u>\$82,282</u>	<u>\$81,137</u>

A reconciliation of the statutory United States income tax rate to the effective income tax rate for continuing operations follows:

	Year Ended December 31,		
	2009	2010	2011
Tax at statutory rate	35.0%	35.0%	35.0%
State taxes	4.3	4.3	4.5
Other	0.6	0.8	0.1
Change in valuation allowance	(0.1)	(0.2)	—
Effective tax rate, continuing operations	<u>39.8%</u>	<u>39.9%</u>	<u>39.6%</u>

The Company's annual effective tax rate from continuing operations decreased to 39.6% for the year ended December 31, 2011 from 39.9% for the year ended December 31, 2010 primarily due to a benefit for federal research tax credits and a change in estimate of the realizability of acquired Quova, Inc. net operating losses partially offset by settlement of the Company's Internal Revenue Service examination and TARGUSinfo acquisition-related costs and stock repurchase costs, which are nondeductible for tax purposes. The Company's annual effective tax rate increased to 39.9% for the year ended December 31, 2010 from 39.8% for the year ended December 31, 2009 primarily due to an increase in foreign withholding income taxes.

On February 7, 2011, the Company sold certain business assets and liabilities of Neustar NGM Services, Inc. (NGM Services) and its subsidiaries, a portion of the Converged Messaging Services business. The Company intends to treat the common stock of NGM Services as worthless for U.S. income tax purposes in its 2011 U.S. federal and state income tax returns. As a result, the Company recorded an income tax benefit of \$42.7 million for the three months ended March 31, 2011 within discontinued operations, which primarily represents the book and tax basis differences associated with its investment in NGM Services.

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The Company realized certain tax benefits related to nonqualified and incentive stock option exercises in the amounts of \$0.6 million, \$1.6 million and \$4.5 million for the years ended December 31, 2009, 2010 and 2011, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income taxes are as follows (in thousands):

	December 31,	
	2010	2011
Deferred tax assets:		
Domestic NOL carryforwards	\$ 10,396	\$ 11,088
Foreign NOL carryforwards	996	43,748
Restructuring accrual	890	1,374
Deferred revenue	5,034	4,234
Accrued compensation	2,979	3,973
Stock-based compensation expense	18,114	21,832
Realized losses on investments	1,247	1,189
Deferred rent	347	4,638
Other	2,596	3,121
Total deferred tax assets	42,599	95,197
Valuation allowance	(2,340)	(45,971)
Total deferred tax assets, net	40,259	49,226
Deferred tax liabilities:		
Unbilled receivables	(2,828)	(2,184)
Depreciation and amortization	(14,122)	(39,859)
Identifiable intangible assets	(4,299)	(118,246)
Deferred costs	(2,712)	(3,493)
Other	(15)	(417)
Total deferred tax liabilities	(23,976)	(164,199)
Net deferred tax assets (liabilities)	<u>\$ 16,283</u>	<u>\$(114,973)</u>

As of December 31, 2011, the Company had U.S. net operating loss carryforwards for federal tax purposes of approximately \$24.5 million which expire, if unused, in various years from 2020 to 2030. As of December 31, 2011, certain losses generated by NGM Services are no longer prevented from use in another jurisdiction under U.S. tax law and are recorded as United Kingdom (U.K.) net operating loss carryforwards. The Company is evaluating limitations that may apply to its U.K. net operating losses to determine the amount of the approximately \$172.9 million gross net operating losses that are ultimately available for carryforward indefinitely under U.K. tax law. Upon recognition of the deferred tax asset associated with its U.K. net operating loss carryforwards, the Company recorded a full valuation allowance against the asset. As of December 31, 2011, the Company had other foreign net operating loss carryforwards of approximately \$3.0 million, of which \$2.6 million can be carried forward indefinitely under current local tax laws and \$0.4 million which expire, if unused, in years beginning 2016.

As of December 31, 2011, the approximate amount of earnings from foreign subsidiaries that the Company considers indefinitely reinvested and for which deferred taxes have not been provided was approximately \$1.7 million. It is not practicable to determine the income tax liability that would be payable if such earnings were not indefinitely reinvested.

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As of December 31, 2010 and 2011, the Company had unrecognized tax benefits of \$1.2 million and \$1.6 million, respectively, of which \$1.2 million and \$1.6 million, respectively, would affect the Company's effective tax rate if recognized. The net increase in the liability for unrecognized income tax benefits is as follows (in thousands):

Balance at January 1, 2009	\$1,054
Increase related to current year tax positions	48
Increase related to prior year tax positions	353
Reductions due to lapse in statutes of limitations	(158)
Settlements	<u>(225)</u>
Balance at December 31, 2009	1,072
Increase related to current year tax positions	95
Increase related to prior year tax positions	—
Reductions due to lapse in statutes of limitations	(8)
Settlements	<u>—</u>
Balance at December 31, 2010	1,159
Increase related to current year tax positions	195
Increase related to prior year tax positions	715
Positions assumed in TARGUSinfo acquisition	259
Reductions due to lapse in statutes of limitations	(618)
Settlements	<u>(144)</u>
Balance at December 31, 2011	<u><u>\$1,566</u></u>

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. During the years ended December 31, 2009, 2010 and 2011, the Company recognized potential interest and penalties of \$66,000, \$26,000 and \$118,000, respectively, including interest related to uncertain tax positions of companies acquired during the year. As of December 31, 2010 and 2011, the Company had established reserves of approximately \$84,000 and \$153,000, respectively, for accrued potential interest and penalties related to uncertain tax positions. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision. During the year ended December 31, 2011, accrued interest and penalties decreased by \$49,000 due to settlements and expiration of certain statutes of limitations.

The Company files income tax returns in the United States Federal jurisdiction and in many state and foreign jurisdictions. The tax years 2007 through 2010 remain open to examination by the major taxing jurisdictions to which the Company is subject. The IRS completed an examination of the Company's federal income tax returns for the years 2007 and 2008. The audit resulted in no material adjustments. The Company also settled a withholding tax audit with the Israeli Taxing Authority for the years 2007 to 2009. The audit resulted in no material adjustments.

The Company anticipates that total unrecognized tax benefits will decrease by approximately \$661,000 over the next 12 months due to the expiration of certain statutes of limitations and settlement of tax audits.

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14. STOCKHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue up to 100,000,000 shares of preferred stock, \$0.001 par value per share, in one or more series, to establish from time to time the number of shares to be included in each series, and to fix the rights, preferences, privileges, qualifications, limitations and restrictions of the shares of each wholly unissued series. As of December 31, 2010 and 2011, there are no preferred stock shares issued or outstanding.

Common Stock

The Company is authorized to issue up to 200,000,000 shares of Class A common stock, \$0.001 par value per share and 100,000,000 shares of Class B common stock, \$0.001 par value per share. Each holder of Class A and Class B common stock is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of Class A and Class B common stock are entitled to receive dividends out of assets legally available at the time and in the amounts as the Company's Board of Directors may from time to time determine.

Stock-Based Compensation

The Company has five stock incentive plans: the NeuStar, Inc. 1999 Equity Incentive Plan (1999 Plan); the NeuStar, Inc. 2005 Stock Incentive Plan (2005 Plan); the NeuStar, Inc. 2009 Stock Incentive Plan (2009 Plan); the Targus Information Corporation Amended and Restated 2004 Stock Incentive Plan (TARGUSinfo Plan); and the AMACAI Information Corporation 2004 Stock Incentive Plan (AMACAI Plan) (collectively, the Plans). The Company may grant to its directors, employees and consultants awards under the 2009 Plan in the form of incentive stock options, nonqualified stock options, stock appreciation rights, shares of restricted stock, restricted stock units, PVRsUs and other stock-based awards. The aggregate number of shares of Class A common stock with respect to which all awards may be granted under the 2009 Plan is 11,911,646, plus the number of shares underlying awards granted under the 1999 Plan, the 2005 Plan, the TARGUSinfo Plan, and the AMACAI Plan that remain undelivered following any expiration, cancellation or forfeiture of such awards. As of December 31, 2011, 7,176,325 shares were available for grant or award under the 2009 Plan.

The term of any stock option granted under the Plans may not exceed ten years. The exercise price per share for options granted under the Plans may not be less than 100% of the fair market value of the common stock on the option grant date. The Board of Directors or Compensation Committee of the Board of Directors determines the vesting schedule of the options, with a maximum vesting period of ten years. Options issued generally vest with respect to 25% of the shares underlying the option on the first anniversary of the grant date and 2.083% of the shares on the last day of each succeeding calendar month thereafter. The options expire seven to ten years from the date of issuance and are forfeitable upon termination of an option holder's service.

The Company has granted and may in the future grant restricted stock to directors, employees and consultants. The Board of Directors or Compensation Committee of the Board of Directors determines the vesting schedule of the restricted stock, with a maximum vesting period of ten years. Restricted stock issued generally vests in equal annual installments over a four-year term.

Stock-based compensation expense recognized for the years ended December 31, 2009, 2010 and 2011 was \$13.5 million, \$17.0 million and \$27.5 million, respectively. As of December 31, 2011, total unrecognized compensation expense related to non-vested stock options, non-vested restricted stock awards, non-vested restricted stock units and non-vested PVRsUs granted prior to that date was estimated at \$43.5 million, which the Company expects to recognize over a weighted average period of approximately 1.48 years. Total unrecognized

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compensation expense as of December 31, 2011 is estimated based on outstanding non-vested stock options, non-vested restricted stock awards, non-vested restricted stock units and non-vested PVRsUs. Stock-based compensation expense may be increased or decreased in future periods for subsequent grants or forfeitures, and changes in the estimated fair value of non-vested awards granted to consultants.

Stock Options

The Company utilizes the Black-Scholes option pricing model for estimating the fair value of stock options granted. The weighted-average grant date fair value of options granted during the years ended December 31, 2009, 2010 and 2011 was \$6.47, \$8.12 and \$8.83, respectively. The following are the weighted-average assumptions used in valuing the stock options granted during the years ended December 31, 2009, 2010 and 2011, and a discussion of the Company's assumptions.

	Year Ended December 31,		
	2009	2010	2011
Dividend yield	— %	— %	— %
Expected volatility	43.37 %	39.13 %	37.16 %
Risk-free interest rate	1.60 %	2.07 %	1.56 %
Expected life of options (in years)	4.42	4.42	4.41

Dividend yield — The Company has never declared or paid dividends on its common stock and does not anticipate paying dividends in the foreseeable future.

Expected volatility — Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The Company considered the historical volatility of its stock price over a term similar to the expected life of the grant in determining its expected volatility.

Risk-free interest rate — The risk-free interest rate is based on U.S. Treasury bonds issued with similar life terms to the expected life of the grant.

Expected life of the options — The expected life is the period of time that options granted are expected to remain outstanding. The Company determined the expected life of stock options based on the weighted average of (a) the time-to-settlement from grant of historically settled options and (b) a hypothetical holding period for the outstanding vested options as of the date of fair value estimation. The hypothetical holding period is the amount of time the Company assumes a vested option will be held before the option is exercised. To determine the hypothetical holding period, the Company assumes that a vested option will be exercised at the midpoint of the time between the date of fair value estimation and the remaining contractual life of the unexercised vested option.

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The following table summarizes the Company's stock option activity:

	Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in millions)	Weighted Average Remaining Contractual Life (in years)
Outstanding at December 31, 2008	4,660,565	\$20.15		
Options granted	2,237,649	17.33		
Options exercised	(344,183)	4.96		
Options forfeited	(602,773)	26.08		
Outstanding at December 31, 2009	5,951,258	19.37		
Options granted	1,951,205	23.16		
Options exercised	(596,426)	13.02		
Options forfeited	(590,478)	23.41		
Outstanding at December 31, 2010	6,715,559	20.68		
Options granted	2,425,873	26.93		
Options exercised	(2,339,890)	16.79		
Options forfeited	(637,286)	24.17		
Increase due to acquisition	369,570	22.29		
Outstanding at December 31, 2011	<u>6,533,826</u>	\$24.15	\$65.5	4.82
Exercisable at December 31, 2011	<u>2,651,973</u>	\$23.63	\$28.0	2.98
Exercisable at December 31, 2010	<u>3,620,689</u>	\$19.95	\$29.1	3.25
Exercisable at December 31, 2009	<u>3,079,893</u>	\$18.82	\$24.5	3.73

The aggregate intrinsic value of options exercised for the years ended December 31, 2009, 2010 and 2011 was \$4.2 million, \$7.1 million and \$29.2 million, respectively.

The following table summarizes information regarding options outstanding at December 31, 2011:

Range of Exercise Price	Options Outstanding		Weighted-Average Remaining Contractual Life (in years)	Options Exercisable	
	Number of Options Outstanding	Weighted-Average Exercise Price		Number of Options Exercisable	Weighted-Average Exercise Price
\$0.00 – \$3.48	21,870	\$ 3.18	0.20	21,870	\$ 3.18
\$3.49 – \$6.97	254,227	6.04	1.05	254,227	6.04
\$6.98 – \$10.45	10,596	9.25	6.13	4,206	8.46
\$10.46 – \$13.94	8,743	10.96	3.68	4,411	10.86
\$13.95 – \$17.42	702,606	15.48	3.50	337,047	15.40
\$17.43 – \$20.90	307,917	18.89	7.00	49,352	19.04
\$20.91 – \$24.39	1,439,326	22.71	4.20	495,215	22.61
\$24.40 – \$27.87	2,568,428	26.41	5.15	630,118	26.36
\$27.88 – \$31.36	510,352	30.21	2.12	407,552	30.23
\$31.37 – \$34.84	709,761	32.88	4.33	447,975	32.87
	<u>6,533,826</u>	\$24.15	4.35	<u>2,651,973</u>	\$23.63

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Restricted Stock

The following table summarizes the Company's non-vested restricted stock activity:

	Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2008	260,298	\$25.50	
Restricted stock granted	192,000	20.69	
Restricted stock vested	(61,375)	25.90	
Restricted stock forfeited	(37,766)	27.11	
Outstanding at December 31, 2009	353,157	22.64	
Restricted stock granted	330,890	23.18	
Restricted stock vested	(85,619)	24.76	
Restricted stock forfeited	(63,838)	22.60	
Outstanding at December 31, 2010	534,590	22.82	
Restricted stock granted	402,670	27.04	
Restricted stock vested	(185,433)	26.20	
Restricted stock forfeited	(106,832)	24.80	
Outstanding at December 31, 2011	644,995	\$24.16	\$22.0

The total aggregate intrinsic value of restricted stock vested during the years ended December 31, 2009, 2010 and 2011 was approximately \$1.3 million, \$2.0 million and \$5.3 million, respectively. During the years ended December 31, 2009, 2010 and 2011, the Company repurchased 18,208, 26,720 and 62,583 shares of common stock, respectively, for an aggregate purchase price of \$0.4 million, \$0.6 million, and \$1.6 million, respectively, pursuant to the participants' rights under the Company's stock incentive plans to elect to use common stock to satisfy their tax withholding obligations.

Performance Vested Restricted Stock Units

During the years ended 2009, 2010 and 2011, the Company granted 532,943, 266,580 and 234,112 PVRsUs, respectively, to certain employees with an aggregate fair value of \$8.3 million, \$6.1 million, and \$6.2 million, respectively. The vesting of these stock awards is contingent upon the Company achieving specified financial targets at the end of the specified performance period and an employee's continued employment through the vesting period. The level of achievement of the performance conditions affects the number of shares that will ultimately be issued. The range of possible stock-based award vesting is between 0% and 150% of the initial target. Compensation expense related to these awards is recognized over the requisite service period based on the Company's estimate of the achievement of the performance target and vesting period. As of December 31, 2011, the level of achievement of the performance target awards for PVRsUs granted during 2009, 2010 and 2011 was 133%, 116% and 134%, respectively.

During 2011, the Company revised its estimate of achievement of the performance target related to the PVRsUs granted during 2010 from 100% of target to 105% of target, and further revised its estimate of achievement in the fourth quarter of 2011 to 116% of target. In addition, the Company revised its estimate of achievement of the performance target related to the PVRsUs granted during 2011 from 100% of target to 131% of target, and further revised its estimate of achievement in the fourth quarter of 2011 to 134% of target. These changes in estimates did not have a material impact on the Company's income from continuing operations and

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earnings per diluted share from continuing operations for the year ended December 31, 2011. As of December 31, 2011, the performance periods related to the PVRsUs granted during 2010 and 2011 were complete and the levels of achievement of the performance target was fixed.

The fair value of a PVRsU is measured by reference to the closing market price of the Company's common stock on the date of the grant. Compensation expense is recognized on a straight-line basis over the requisite service period based on the number of PVRsUs expected to vest.

The following table summarizes the Company's non-vested PVRsU activity:

	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>	<u>Aggregate Intrinsic Value (in millions)</u>
Non-vested December 31, 2008	413,143	\$28.98	
Granted	532,943	15.57	
Vested	—	—	
Forfeited	(106,300)	23.38	
Non-vested December 31, 2009	839,786	21.17	
Granted	266,580	22.84	
Vested	(6,000)	29.32	
Forfeited	(259,443)	28.01	
Non-vested December 31, 2010	840,923	19.53	
Granted	234,112	26.45	
Vested	—	—	
Forfeited	(240,660)	24.74	
Non-vested December 31, 2011	<u>834,375</u>	\$19.97	\$28.5

The total aggregate intrinsic value of PVRsUs vested during the year ended December 31, 2010 was approximately \$0.2 million. During the year ended December 31, 2010, the Company repurchased 2,129 shares of common stock for an aggregate purchase price of \$0.1 million pursuant to the participants' rights under the Plans to elect to use common stock to satisfy their tax withholding obligations. No PVRsUs vested in the years ended December 31, 2009 and 2011.

On January 1, 2012, 581,490 PVRsUs vested with a total aggregate intrinsic value of \$19.9 million. These PVRsUs were granted in 2009. The Company repurchased 210,664 shares of common stock for an aggregate purchase price of \$7.2 million pursuant to the participants' rights under the Plans to elect to use common stock to satisfy their tax withholding obligations.

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Restricted Stock Units

The following table summarizes the Company's restricted stock units activity:

	Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2008	110,599	\$26.21	
Granted	52,512	22.85	
Vested	—	—	
Forfeited	—	—	
Outstanding at December 31, 2009	163,111	25.13	
Granted	68,754	21.31	
Vested	—	—	
Forfeited	—	—	
Outstanding at December 31, 2010	231,865	23.99	
Granted	46,933	26.64	
Vested	(29,110)	24.39	
Forfeited	(750)	25.84	
Outstanding at December 31, 2011	<u>248,938</u>	\$24.44	\$8.5

These restricted stock units were issued to non-management directors of the Company's Board of Directors and certain employees. Restricted stock units granted to non-management directors will fully vest on the earlier of the first anniversary of the date of grant or the day preceding the date in the following calendar year on which the Company's annual meeting of stockholders is held. Upon vesting of restricted stock units granted prior to 2011, each director's restricted stock units will automatically be converted into deferred stock units, and will be delivered to the director in shares of the Company's stock six months following the director's termination of board service. Upon vesting of restricted stock units that were granted in 2011, each director's restricted stock units will automatically be converted into deferred stock units and will be delivered to the director in shares of the Company's stock six months following the director's termination of board service unless a director elected near-term delivery, in which case the vested restricted stock units will be delivered on August 15, 2012.

Share Repurchase Programs

Modified Dutch Auction Tender Offer

On November 3, 2011, the Company announced the commencement of a modified Dutch auction tender offer to purchase up to \$250 million of its Class A common stock. A modified Dutch auction tender offer allows stockholders to indicate how many shares and at what price they wish to tender their shares within a specified share price range. Based on the number of shares tendered and the prices specified by the tendering stockholders, the Company determined the lowest price per share within the range that allowed it to purchase \$250 million in value of its Class A common shares. The tender offer expired on December 2, 2011. A total of 7,246,376 shares of the Company's Class A common stock were repurchased at a price of \$34.50 per share, for an aggregate cost of approximately \$250 million, excluding fees and expenses relating to the tender offer. All repurchased shares were accounted for as treasury shares. During the fourth quarter of 2011, the Company recorded expense of \$2.4 million in its consolidated statements of operations attributed to this share repurchase plan.

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2010 Share Repurchase Plan

The Company announced on July 28, 2010 that its Board of Directors had authorized a three-year program under which the Company may acquire up to \$300 million of its outstanding Class A common shares. Share repurchases under this program may be made through a Rule 10b5-1 plan, open market purchases, privately negotiated transactions or otherwise as market conditions warrant, at prices the Company deems appropriate, and subject to applicable legal requirements and other factors. This Rule 10b5-1 plan was terminated on November 3, 2011 upon the commencement of the Company's modified Dutch auction tender offer. During the years ended December 31, 2010 and 2011, the Company repurchased 1,668,399 shares and 2,833,745 shares, respectively, at an average price of \$24.21 and \$26.22, respectively, for an aggregate purchase price of approximately \$40.4 million and \$74.3 million, respectively. All repurchased shares were accounted for as treasury shares.

15. BASIC AND DILUTED NET INCOME PER COMMON SHARE

The following table provides a reconciliation of the numerators and denominators used in computing basic and diluted net income per common share (in thousands, except per share data):

	Year Ended December 31,		
	2009	2010	2011
Computation of basic net income (loss) per common share:			
Income from continuing operations	\$115,510	\$124,028	\$123,574
(Loss) income from discontinued operations, net of tax	(14,369)	(17,819)	37,249
Net income	<u>\$101,141</u>	<u>\$106,209</u>	<u>\$160,823</u>
Weighted average common shares and participating securities outstanding – basic	<u>74,301</u>	<u>74,555</u>	<u>72,974</u>
Basic net income (loss) per common share from:			
Continuing operations	\$ 1.55	\$ 1.66	\$ 1.69
Discontinued operations	(0.19)	(0.24)	0.51
Basic net income per common share	<u>\$ 1.36</u>	<u>\$ 1.42</u>	<u>\$ 2.20</u>
Computation of diluted net income (loss) per common share:			
Weighted average common shares and participating securities outstanding – basic	74,301	74,555	72,974
Effect of dilutive securities:			
Stock-based awards	1,164	1,510	1,522
Weighted average common shares outstanding – diluted	<u>75,465</u>	<u>76,065</u>	<u>74,496</u>
Diluted net income (loss) per common share from:			
Continuing operations	\$ 1.53	\$ 1.63	\$ 1.66
Discontinued operations	(0.19)	(0.23)	0.50
Diluted net income per common share	<u>\$ 1.34</u>	<u>\$ 1.40</u>	<u>\$ 2.16</u>

Diluted net income per common share reflects the potential dilution of common stock equivalents such as options and warrants, to the extent the impact is dilutive. The Company used income from continuing operations as the control number in determining whether potential common shares were dilutive or anti-dilutive. The same number of potential common shares used in computing the diluted per-share amount from continuing operations was also used in computing the diluted per-share amounts from discontinued operations even if those amounts were anti-dilutive.